



2013 Budget Review

CITY COUNCIL

MINUTES October 31, 2012 5:30 pm

COUNCIL MEMBERS PRESENT:

F. Acosta, D. Reed, S. Marmarou, R. Corcoran, D. Sterner, J. Waltman

OTHERS PRESENT:

L. Kelleher, D. Cituk, M. Bembenick, C. Younger, C. Zale, C. Snyder, E. Lloyd, V. Spencer, G. Mann, D. Kaplan, E. Solivan

Mr. Acosta called the meeting to order at approximately 5:30 pm.

Reading Public Library

Mr. Schlegel, President of the Library Board, described the erosion in library funding by the state and local government. He stated that in 2010 the City cut its annual \$500K (since 2008) contribution to \$100K. He stated that operations were reduced responsibly to retain the core services of the library. He noted that the Library Board has played a large role in fund raising and encouraging donations.

Mr. Schlegel questioned the amount of the Library's pension costs of \$190K that are born by the City. He requested a reevaluation. He stated that the roof at the Main Branch is in need of replacement. He requested that the City dedicate a portion of the property tax milage for the Library. He stated that the City dedicates a portion of the property taxes to fund the Shade Tree program and noted that program requires an excessive amount of labor to manage (pruning and leaf removal). He stated that the dedication of additional funds to the Library will not incur additional expenses for the City.

PFM

Mr. Mann distributed a handout FY 2013 Budget and Act 47 Plan. He stated that PFM analyzed two questions: 1. Where do City revenues and expenses diverge from the Act 47 Recovery Plan in 2012 and 2013? 2. How do the divergences influence the 2013 budget

process? He suggested continuing to improve delinquent tax and fee collection and encouraged action on the MBRO (Market Based Revenue Opportunities) initiative in the Recovery Plan (page 270) as when fully implemented it should generate a few hundred thousand dollars a year. He also encouraged the review of retiree and employee eligibility in the health insurance program, as taking on that extra burden reduces the number of active employees the City can afford to hire or retain.

Mr. Mann stated that the analysis is based on the Oct 6th revenues and the Oct 18th expenditures and the following were identified:

- Revenues overall are a bit higher than in 2010 but without the additional 15% property tax not required by the Recovery Plan, they fall lower than 2010.
- Property tax as proposed (with the 15% increase) falls at \$21M in the budget and \$13M in the Plan
- EIT revenue sits as \$14.7M in the Plan and \$13.6 in the proposed budget. (The Plan projects the EIT as budgeted not as collected)

The differences in the EIT are

	Recovery Plan	Actual
2011	\$17.9M	\$13M
2012	\$14.5M	\$14M

The break out of Residential v. Commuter EIT is:

	2011	2012	2013
Resident	\$3M	\$1M	\$1M
Commuter	\$1.8M	\$300K	\$164K

Underperforming revenues are:

- Per Capita Tax – under \$220K
- RE Transfer Tax – under \$725K
- Police Reimbursement by RSD – under \$538K
- Grants & Gifts (Police Dept) – under \$551K

Housing revenues are:

- Rental Inspections – up \$134K
- QoL tickets – up \$400K
- Other fees – up \$156K

Mr. Mann stated that the pension projection is on target, the debt service has been reduced and police and fire expenses are increased. Fire salaries are increased by 34% and Fire Overtime is excessive. However, Police salaries are in line. Health care expenses are much higher than expected but the open enrollment should correct that. He noted that Non-personnel costs (Act 902) fall at \$1.6M, approximately \$794K higher than the Recovery Plan

predicts.

Mr. Mann stated that Public Works and Administrative spending is slightly higher than expected. Community Development spending is also slightly higher but generates revenue to balance the costs.

Mr. Mann stated that an evaluation of the pension costs show an increase of 437% in non-uniformed personnel (not police and fire). He noted that the O&E Pension Board uses a ½ point assumption which increases the City's liability. He noted that the 2008 stock market crash has hurt the pension funds and that the City will feel a ripple effect for the next few years. He noted that the Police DROP and 10 year buy out options have increased liability on the Police Pension fund. He suggested using State Act 205, which is an additional EIT on residents and commuters, to reduce this burden.

Mr. Mann agreed that an adjustment in the EIT projection in the Plan is needed; however, this adjustment will not eliminate the need for a property tax increase. He also noted the need to retain the current level of public safety personnel.

Mr. Mann suggested looking at Act 205 before seeking court approval for the commuter tax increase. Mr. Kaplan stated that the 437% spike in the pension makes the City eligible for Act 205 this year. He noted that the City did not meet eligibility in prior years.

Mr. Marmarou stated that he called PFM's attention to Act 205 two years ago. Mr. Kaplan stated that two years ago the City was not eligible for Act 205. Mr. Marmarou also recalled that he requested a shift to requiring residency for new City employees.

Ms. Snyder stated that Act 205 is most beneficial as it will not require court approval. Mr. Mann agreed noting that Act 205 is not Recovery Plan related. Mr. Bembenick noted that the projected spike in the pension costs is due to the loss of the 75% smoothing of the MMO.

Mr. Sterner noted the deep reductions in personnel (Public Works, Police, salary freezes and wage cuts) between 1996 and 2010. He stated that the City is at barebones levels in many operational areas and cannot be cut further.

Mr. Mann noted the successes since 2010:

- EIT reporting corrected
- Interfund Transfers corrected
- Cash Flow reports created
- Monthly revenue, expenditure and budget reporting
- Personnel costs corrected
- Reduction in Fire salaries (due to contract award) and scheduling correction (however

additional improvements are required)

Mr. Mann expressed the belief that the structural deficit is deeper than described in the Plan.

Mr. Acosta inquired why Act 205 was not explored before. He also suggested that PFM was not providing the City with sufficient support. Mr. Solivan stated that the City did not become eligible for Act 205 until the 437% increase in pension costs occurred. He stated that PFM is exploring the City's use of Act 205. He noted that this is currently unsettled law. He noted that BEIT would collect the Act 205 income tax.

Ms. Reed expressed concern about placing additional tax burdens on the middle class.

Mr. Corcoran agreed with the need to be mindful of the middle class but also noted the need for the City to cover its expenses. In regard to tax increases, he noted that the City is "damned if it does and damned if it does not" increase taxes.

Ms. Reed agreed that avoiding tax increases is difficult when considering rising costs to support core public services. She stressed the need for improved collection of all City taxes and fees which will greatly improve the financial condition of the City.

Mr. Acosta questioned the budget figures presented by the Administration, including the exorbitant tax increase proposed. He expressed the belief that the Administration may avoid being honest with Council. He also questioned PFM's role in the budget and suggested that PFM may have an improper relationship with the Administration, rather than a relationship that will stimulate the Administration to act responsibly. He also suggested that PFM become more involved in the budget process and provide timely input when needed.

Mr. Acosta stated that he cannot support the proposed tax increases as they will not improve public services to residents, but will instead pay retirees who do not reside in Reading. He noted the need for Council, PFM and the Administration to develop creative solutions and suggestions that will improve City services at a reasonable cost.

Mr. Solivan described the input PFM has had to date on the proposed 2013 budget. He stated that PFM reviewed and approved the request to add a 4th EMS unit to Fire. He also stated that PFM is analyzing the alternative from the CD Director to retain Property Maintenance staff levels and add new technology to the department to eliminate redundancy.

Mr. Solivan stated that cities in Act 47 receive guidance from their Act 47 Coordinator, not "take over" that rides with receivership.

Mr. Cituk suggested going back to the Department of Justice to moderate the restriction on the use of the sewer fund. He also suggested reviewing an alternative to land filling sludge

from the wastewater treatment plant.

Mr. Marmarou expressed the belief that the FOP (police) and IAFF (fire) will be cooperative.

Ms. Snyder agreed with the need to develop short term solutions until many of the City's systems get corrected and that the City is once again collecting the revenues needed to cover City services.

Mr. Acosta expressed the belief that the Administration is setting up the working class to fight the City's ever increasing taxes and fees. He described the various groups that have joined to fight City Hall.

Mr. Acosta also noted the need for the City to improve its communication with Reading residents. He suggested developing a list of State legislation that either needs to be amended or drafted to assist Reading and other 3rd class sized cities. He stated that if State legislators refuse to cooperate they will be pushing more cities into receivership.

Budget Review Meetings

The group will continue budget discussions on Monday, November 5th at 4:30 pm. The meeting adjourned at approximately 7:15 pm.

*Respectfully submitted by
Linda A. Kelleher CMC, City Clerk*